

April 1, 2005

The Honorable Larry Phillips
Chair, King County Council
Room 1200
C O U R T H O U S E

Dear Councilmember Phillips:

I am pleased to transmit the King County Health Reform Initiative Business Case as required by the following proviso in the 2005 adopted budget:

Of this appropriation, \$200,000 shall not be expended or encumbered until after the council reviews and approves by motion a business case for the disease management, case management and health promotion programs. The disease management case shall include cost-benefits analysis and performance measures for each program and a description of their impacts on the flexible benefits rate. The business case for the disease management programs shall also include performance guarantees for the disease management vendors.

King County, like employers nationally, regionally and locally, is facing continued double-digit increase in health care costs for the foreseeable future. The county's benefits costs are expected to grow from \$144 million in 2005 to \$219 million in 2009. The Budget Advisory Task Force, formed to research the county budgetary challenges, noted in its final report issued in July 2003, that the traditional methods of health care cost containment no longer work; it is imperative that the county look well outside of its traditional approach to employee benefits to find innovative ways to balance the competing interests of employees and the need to control costs.

The King County Council took bold action in the 2004 budget by approving the Benefits Labor-Management Collaboration project to develop an education strategy that drives home to employees the very real and personal effect the health care crisis has on their benefits and provides them resources and tools to obtain high quality health care at a price affordable to both the employees and the county. Key objectives of the strategy are:

- Research and analyze employee health and health care program elements for labor and management to explore;
- Ensure union members and other employees understand the current financial issues in the county and support the efforts to provide quality, affordable health care programs;

- Help everyone at all levels in the organization to have a common understanding of the rationale for change, the goals, and the steps required to get there;
- Empower employees and their spouses/domestic partners by asking them to be a part of the solution and showing them why it is in their best interest to control cost increases;
- Mitigate drops in productivity and retention that result from employee dissention, anxiety and misunderstanding;
- Keep information and innovative ideas flowing in all directions; and
- Develop actual tools to support health care consumer decision making.

The Council has continued its study of best approaches to managing its health care costs by reviewing the two reports from the Health Advisory Task (HAT) Force. These two reports were adopted in 2004 by Council Motions 11890 and 12023. A key theme in these two reports is that past efforts at health care cost containment have been focused almost exclusively on controlling the “supply side” by limiting access to providers through managed care, contracting with providers for reduced fees, and after-the-fact utilization review. These approaches by themselves have not stemmed the cost trend. There is increasing realization that to achieve more effective cost containment, employers like King County need to focus on reducing the “demand side” of health care. In summary, the HAT Force recommended that the county focus on reducing the “demand side” of health care by moving employees and family members with higher risks to lower risk, keeping those with lower risk healthy, and teaching consumers how to make more effective health care choices. Key action steps suggested by the HAT Force reports included:

- Use employee surveys and focus groups to determine the most relevant and effective communication programs for employees and their families;
- Conduct an analysis of its health care utilization data to determine areas of intervention that will have the greatest effect on health care costs; and
- Create benefit designs that motivate employees and their families to choose identified quality providers, actively participate with their providers in their own health care, participate in wellness and prevention activities, and manage chronic health conditions.

The county’s action on all three of these HAT Force recommendations is described in detail in the accompanying business case. As a result, the county has developed considerable information about programs and benefits designs that will best meet the Council’s objectives for controlling health care costs. The specific direction given to the management and labor representatives on the Joint Labor Management Insurance Committee (JLMIC) in 2004 was to develop a benefits package that would:

- Improve the health of county employees and their families;
- Reduce the rate of growth of medical plan costs by one-third (this equates to approximately \$40 million for the 2007 – 2009 benefit plan years);

- Avoid county-mandated premium share;
- Allow flexibility to address emerging innovation in either vendor or community-based programs;
- Be consistent with all HAT Force recommendations; and
- Be administratively feasible.

It quickly became apparent to both labor and management that crafting a new benefits package that would more successfully address the rising cost of health care would require more thought and preparation than could be accomplished by January of 2006, the normal start of the next three-year benefits package. Therefore the county and the JLMIC reached an agreement to extend the current benefit package an additional year through December 31, 2006. As part of the agreement, the county and JLMIC pledged to seek ways to provide employees with additional tools and resources necessary to better manage their benefits and healthcare choices. As these benefit enhancements are identified, refined and agreed upon they may be implemented or added to the current package at any time. In addition the county and JLMIC have continued to actively work toward the development of a new multi-year benefit agreement to become effective January 1, 2007, focused on improving the quality of care for employees and stabilizing the costs of healthcare benefits. As a result, the county and the JLMIC have now agreed to five-year strategy to reduce health care demand. This package includes the following set of programs:

- Case management (telephone outreach to members needing hospital or other specialized care)
- Disease prevention/early detection programs (disease-specific screening, clinically developed models that predict when and how risk factors are most likely to become a full-blown chronic condition)
- Chronic disease management programs for asthma, diabetes, coronary artery disease, chronic heart failure, depression and low back pain
- Nurse advice line and patient access to health/health care information databases
- Provider best practices (target providers to improve efficiency and quality of service)
- Health risk assessment (tool used to determine an individual's specific risk of developing chronic disease and the individual's readiness to make lifestyle changes that reduce that level of risk)
- Targeted health behavior change (individually tailored messaging to provide specific next steps to individuals seeking to make lifestyle changes as a result of a health risk assessment)

Starting these programs in 2005 as pilots and continuing them in 2007 through 2009 as a part of formal incentive plan is projected to reduce the health care cost trend by one third (approximately \$40 million) during the 2007 – 2009 benefit package. That is, the cost of the benefits package at the end of 2009 will be \$40 million less over the three-year period than it would have been had the county not implemented these programs. The total cost of benefits, however, will still be higher than in 2005. Each of the programs in the package is expected to deliver a return at least \$2.00 savings, often more, for every \$1.00 invested.

The county is in the process of developing a research design for measuring and tracking the contribution of each program towards the county's overall goals of lower cost increases and better employee health. Measurement and reporting can be broken down into three areas—on-going reporting of participation in specific programs, outcomes analysis for each specific program, and surveying of the effectiveness of the communication, education and health promotion activities in motivating participation in the various programs. The county's goal is to have a set of measurements that work both for the pilot programs in 2005 – 2006 and for programs and vendors selected for the 2007 – 2009 benefits package. A final decision on the measurement system is expected by the end of the second quarter, 2005.

Finally, as noted in the HAT Force reports adopted by Council Motions 11890 and 12023, there are three components critical to the success of the benefits package beyond the actual programs. These are 1) building a strong organizational alignment with health promotion in the workplace, 2) developing and sustaining an active, well-executed communication program aimed at both employees and their spouses/domestic partners, and 3) implementing a user-friendly web portal for delivering health education and tools to the home and simplifying enrollment in programs and benefits. These three components must be in place in order for the county to realize the return on investment and ultimate health care cost containment it is seeking.

The county is now in the process of developing a comprehensive health promotion strategy that starts with senior management commitment to employee health as an asset to business success, and reaches out to every employee. The goal of the health promotion strategy is to support and reinforce employee efforts to develop and maintain healthy behaviors. It also means supporting employees who are working on their targeted health behavior changes by sponsoring activities are consistent with this behavior change. This could include things like providing healthier snacks in vending machines, allowing Weight Watchers meetings at county worksites, creating maps of walking routes near county facilities, sponsoring noontime or before/after work walking clubs, and offering smoking cessation classes. Major employers including GE, Johnson & Johnson, Volkswagen AG, Pitney Bowes, and Caterpillar have all added strong work place-based health promotion to their health care cost containment efforts.

As noted above, the council has already recognized the need for a comprehensive communication and education program and approved the Benefits Labor-Management Collaboration project in the 2004 budget.

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The Benefit Health Information Project (BHIP) business case outlines in detail a strategy for developing a web portal and enrollment system that will competently support the county's new benefits programs for plan years 2007-2009.

Thank you for the opportunity to share the King County Health Reform Initiative Business case. The county is embarking on a bold and innovative approach with its unions to make lasting change in its health care cost trends.

Sincerely,

Ron Sims

King County Executive

Enclosures

cc: King County Councilmembers

ATTN: Scott White, Chief of Staff

Shelley Sutton, Policy Staff Director

Rebecha Cusack, Lead Staff, BFM Committee

Anne Noris, Clerk of the Council

Steve Call, Director, Office of Management and Budget

Paul Tanaka, County Administrative Officer, Department of Executive Services (DES)

Caroline Whalen, Deputy County Administrative Officer, DES

Karleen Sakumoto, Health Reform Initiative Project Director, DES